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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

7 OCT 26 P 1:18

ARIZONA CORPORATION COMMISSION
LOCKET CONTROL

IN THE MATTER OF THE SALE AND
TRANSITION BY ARIZONA PUBLIC SERVICE
TO ELECTRICAL DISTRICT NO. 3 OF
CERTAIN ELECTRICAL FACILITIES IN PINAL
COUNTY PURSUANT TO A.R.S. 40-285(A)
AND FOR DELETION FROM ITS
CERTIFICATE OF CONVENIENCE AND
NECESSITY CERTAIN AREAS OF PINAL
COUNTY

DOCKET NO. E-01345A-08-0426

**PINAL ENERGY'S RESPONSE TO
STAFF**

1 Pinal Energy LLC ("Pinal Energy") hereby replies to Commission Staff's October 22,
2 2009," Response to Pinal Energy LLC's Motion to Intervene."

3 **Pinal Energy Was Right – ED3 is Caught in a "Perfect Storm"**

4 Pinal Energy raised concerns about how the new APS power contract could be affecting
5 electric rates for all of ED3's customers, particularly in light of the area's economic slowdown.
6 Attached to this pleading is a copy of an October 16, 2009, article from Tri Valley Central.com,
7 which also appeared in the Casa Grande Dispatch. The article states that ED3 is dealing with a
8 "perfect storm," caused by the double-whammy of escalating APS electric rates and the
9 collapsing Maricopa-area economy.

10 Because demand-growth has stagnated, ED3 is struggling with the new APS contract,
11 which mandates both escalating power costs and increased purchase quantities every year. At
12 the same time, because it planned for ever-increasing loads, ED3 has now substantially overbuilt
13 its electrical system. Without the expected customer growth, ED3 is struggling to pay both its
14 soaring power bills and the debt service on the over-built infrastructure. "Eleven percent of the

Arizona Corporation Commission
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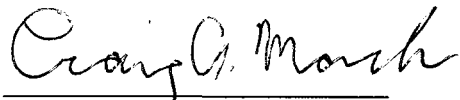
1 current \$50 million ED3 budget is dedicated to those bonds, while a full two-thirds goes into
2 acquiring and distributing electricity.”

3 As Pinal Energy discussed in its previous motions, the escalating APS power bills are
4 now being passed through to ED3 customers. “Those rate hikes have caused soaring bills for
5 residents and business owners, many of whom took to an Oct. 6 City Council meeting to express
6 their extreme displeasure.”

7 Given this perfect storm — much of it caused by the new APS power contract — the
8 Commission needs to reopen the record to determine whether it should allow APS to cast 4,000
9 of its customers into the maelstrom. As ED3’s largest customer, Pinal Energy can provide
10 evidence and policy recommendations to help the Commission determine whether the proposed
11 transfer would be in the public interest. At a minimum, APS should be required to renegotiate
12 the new power contract to hold the transferring customers harmless and to help relieve ED3’s
13 extreme financial distress and the burdens on its existing customers.

14 It is clearly in the public interest for the Commission to reopen the record and allow Pinal
15 Energy to participate in the docket as an intervenor.

16 RESPECTFULLY SUBMITTED on October 26, 2009.

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31 **Original and 13 copies filed**
32 **on October 26, 2009, with:**
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7 **Copy of the foregoing mailed**
8 on October 26, 2009, to:
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Pinal County's Information Source

Maricopa Monitor > Top Stories

'A perfect storm'

Print Page

High-end buy in '08 key culprit in climbing electricity rates

By **ADAM GAUB**
Managing Editor

Published: Friday, October 16, 2009 8:46 AM MST

A decision to lock up 70 percent of its electricity in March 2008 from Arizona Public Service, just months before the recession took full effect, has shown to be the prime reason for escalating electric bills for customers of Electrical District No. 3.

That decision, ED3 representatives told the Monitor on Tuesday, affected both the pricing for the power, as well as the amount of power requested, as the landowning ED3 board secured a five-year deal at a time when competition for contracts was increasingly fierce.

"We were risk adverse," ED3 general manager Bill Stacy said. "It was just before the bubble came down on the other side... but it's probably been our biggest hurt because it steps up each year."

The cost to customers has increased since then, ED3 utility consultant Jeff Woner said, as the deal with APS increases the amount of power purchased each year, based upon growth projections from the city.

At the time, said ED3 board member and former mayor Kelly Anderson, the district was going off information from the city of 100 new single-family homes being constructed per month.

"We base a lot of our decisions on information from the city," Anderson said of projections that the city has revised to 30 per month for its 2010 fiscal year budget. "We were just kind of out there in the dark."

Woner estimated that average bills are 17 to 20 percent higher today than they were approximately 18 months ago when the deal with APS was inked.

He says not to blame the board, which serves as the controlling body of the district - setting pricing and making decisions on everything from infrastructure improvements to where to purchase power from.

"We've had the perfect storm of higher prices, and lesser sales," Woner said of the drop in anticipated demand hurting the remaining residents. "We had to guess what our needs were going to be."

"This could get worse if the economy worsens."

Contributing factors

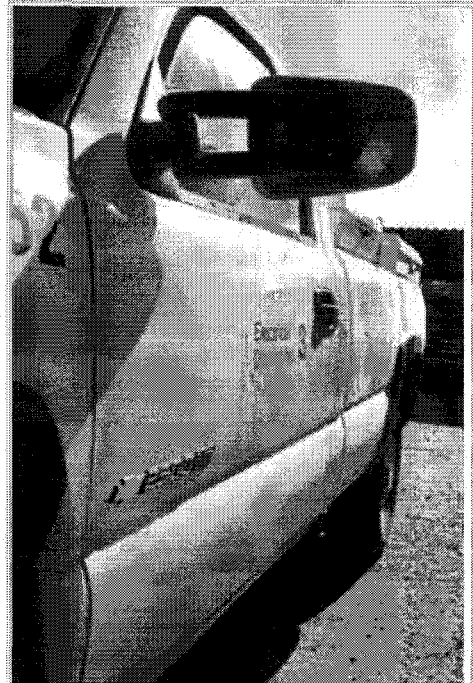
A power deal that in hindsight seems like a poor decision isn't the sole reason residents and businesses in Maricopa have been feeling an increasing pinch.

ED3 saw customers go from roughly 2,000 at the end of 2003 to nearly 16,000 by the end of 2007, but taper off sharply in the time since then. Conversely, the district has seen the bulk of spending in infrastructure since 2006, with nearly \$80 million put out during the last three years for the construction of new substations, power lines and other items eating the bulk of that cost.

ED3 director of financial services Brett Benedict said the 30-year bonds for those projects are beginning to be paid off by residents. Eleven percent of the current \$50 million ED3 budget is dedicated to those bonds, while a full two-thirds goes into acquiring and distributing electricity.

Benedict also said that up this year are the purchased power cost adjustment rates, or PPCA, which are now based closely off the same model used by APS.

"The PPCA was way under-collecting based on what we'd guessed at the beginning of the year," Woner said, explaining why jumps



Adam Gaub/Maricopa Monitor, A five-year power contract with APS in March 2008 is the primary factor driving high electricity rates in the Maricopa area.

in the PPCA on resident bills have been seen in recent months. A five percent rate increase was seen in July, he said, to compensate for the growing number of vacancies throughout the area.

Also changed earlier this year was how residents are billed for usage.

Previously residents paid a base rate of 11.5-cents per kilowatt-hour for the first 500 kilowatt-hours used and 9.15-cents for each additional kilowatt-hour. However, rates were increased to 9-cents per kilowatt for the first 500 kilowatt-hours and 11.5-cents per kilowatt-hour for any use after that point.

Those rate hikes have caused soaring bills for residents and business owners, many of whom took to an Oct. 6 City Council meeting to express their extreme displeasure.

Penascos co-owner Rosalinda O'Hare told the council a \$2,200 electric bill for the month of September exemplified why she is being stretched to the limit financially.

"It's very difficult to stay in business in Maricopa with the utilities the way they are here," she said. "It seems criminal to me what we are paying."

Savings efforts

Stacy says saving money is a possibility for many residents by utilizing one of the district's two time-of-use plans, which make the cost of electricity "substantially cheaper" in off-peak hours.

One plan places peak times between 9 a.m. and 9 p.m., while another sets them for 12 p.m. to 7 p.m.

ED3 public relations manager Jim Hartdegen said residents can also save on their bills using a variety of cost-savings methods, such as window-tinting and raising thermostats while residents are away from their homes.

The district buys 20 percent of their power from hydro-power sources, with the remaining 10 percent purchased off the open market - which Woner said can either help or hurt customers, depending on the direction the market is taking.

"For the first six months after we were in that (APS) contract, we were dreading buying that 10 percent," he said, as power rates didn't begin to decline significantly until early fall of last year.

Stacy said if growth were to happen mostly in areas where infrastructure is already in place, ED3 could serve nearly double the customers it does now without any significant equipment upgrades.

Into the future, ED3 is looking at a variety of different buying options, and perhaps eventually, being able to produce power of their own, as it spends \$3 million annually in simply bringing the power to the Maricopa area from its various sources.

Any potential cost savings that would bring, couldn't come soon enough for the beleaguered residents - some of whom told the City Council Oct. 6 they were considering leaving the city because of them.

"Senior citizens live on fixed incomes and families are discouraged, hurting and hopeless," said Jim Burgess, who set up a booth at Founders' Day on Saturday to collect petition signatures against ED3, photo radar and proposed Global Water rate increases. "I believe the utility companies are positioned to take advantage of us."

Hartdegen, who wished to remind residents that ED3's nonprofit status prevents it from having to meet profit margins to show to shareholders, defended the decisions of the board.

"The board members have the same concerns everyone else does," he said. "They are all landowners and business owners. It's all on their backs, too."

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